Cabinet

28 January 2021

2021/22 Budget and 2021-26 Medium Term Financial Strategy – Updated Information

Members should note that at the time of publication not all the information on the local taxbases for 2021/22 has been received from the District/Borough Councils. If this information is received between the publication date and the date of the meeting on 28 January 2021 an updated report will be tabled.

Recommendations

That Cabinet:

1) Note the latest resource and spending information and the impact on the emerging budget proposals;

2) Note the Strategic Director for Resources' risk assessment on the level of general reserves, as detailed in Appendix A;

3) Support the creation of a Commercial Risk Reserve to mitigate the financial risks of the Authority's commercial activity, funded from the temporary saving on the Authority's borrowing costs as a result of the reprofiling of the capital programme;

4) Publish, in light of the information provided, their 2021/22 budget resolutions for recommendation to Council on 8 February 2021; and

5) Authorise the Strategic Director for Resources to incorporate the outstanding resource information into the budget resolutions to be considered by Council on 8 February 2021.

1. Introduction and Background

1.1. The Cabinet meeting on 10 December 2020 considered a report outlining all the information underpinning the development of the 2021/22 budget and 2021-26 Medium Term Financial Strategy (MTFS) alongside Corporate Board's recommendations as to what should/could be funded within a balanced budget was considered.

1.2. The proposals focussed on ensuring the Authority remains robust, ambitious and resilient in setting the MTFS, given the economic uncertainties that will continue to exist. As at December this meant that the budget for 2021/22 was balanced with a 2% council tax increase and using some of the one-off resources available but that sustainability over the period of the MTFS required a material programme of service reductions.

1.3. The budget for 2021/22 forms the first year of a new five-year rolling MTFS that will align the resources of the Authority to the objectives and ambitions set out in the Council Plan and the Covid-19 Recovery Plan. The use of a rolling MTFS ensures plans for the use of resources are responsive to changes in the context within which the Authority is operating, something that has been critical during 2020/21 as we respond to the pandemic, whilst ensuring the Authority remains robust and resilient over the medium term. This will allow the Authority to plan to deliver on its ambitions with confidence.

1.4. The key proposals from Corporate Board, as at 10 December 2020, were:

- A 2% increase in the basic level of council tax;
- A 2% provision for pay and price inflation plus a provision for contractual commitments above this level estimated to cost £10.618m in 2021/22 and £55.102m over the period of the MTFS;
- On-going allocations of £19.678m and time-limited allocations of £3.500m to meet growing demand pressures and pump prime investment to support the delivery of the Council's objectives, with indicative further allocations in future years bringing the investment over the period of the MTFS to £71.945m and £6.527m respectively;
- Setting aside £1.364m in 2021/22, increasing to £29.949m by 2025/26 to provide financial cover for the gap between the Dedicated Schools Grant (DSG) funding for pupils with Special Educational Needs and Disabilities (SEND) and the estimated level of spend;
- Savings options for balancing the books of £54.101m that will help ensure the Council remains financially sustainable and resilient over the medium term;
- An updated reserves strategy that balanced retaining sufficient resources to manage financial risk whilst identifying £43.151m of reserves that

could be made available for investment and to support the MTFS, through controlling the amount of the Council's scarce resources held in reserves;

- Utilising the expected benefits from the creation of the proposed Warwickshire Property and Development Company (see report elsewhere on today's agenda) to support the MTFS as well as helping deliver the Council's policy objectives; and
- A refreshed capital strategy that aims to optimise the way in which we generate, manage and allocate the capital funds at our disposal to continue to make Warwickshire an attractive place to live, work, visit and do business both in terms of the immediate recovery from the pandemic and over the medium to long-term.

1.5. These proposals were based on the best information available at the time. In a number of areas final information was either unknown or has changed over the intervening period. These areas are:

- The Local Government Finance Settlement and other Government funding announcements;
- The impact in 2021/22 of the revised 2020/21 forecast outturn that has emerged as part of the quarterly budget monitoring and is reported elsewhere on today's agenda;
- The level of business rates expected to be generated locally in 2021/22;
- The council tax taxbase for 2021/22;
- The surplus/deficit on council tax collection from previous years;
- The sustainability of schools and the proposals for use of the Dedicated Schools Grant (DSG) in 2021/22; and
- The latest reserves forecasts and the impact of the Strategic Director for Resources' reserves risk assessment.

1.6. This report updates members on the latest information for each of these areas, and in doing so it also provides Cabinet with the opportunity to issue their 2021/22 revenue and capital budget resolutions. Where final information is not available in time for the publication of this report, an updated version will be tabled at Cabinet on 28 January 2021.

2. Impact of the Local Government Finance Settlement and other Government Funding Announcements

2.1. The provisional Local Government Finance Settlement was announced on 17 December 2020. There were three elements of these announcements that have an impact on the financial position reported to Members earlier in the month – the continuation of the adult social care precept, New Homes Bonus, social care grant funding and the additional funding announced to share the financial impact of irrecoverable losses in council tax and business rates income in 2020/21.

2.2. Adult Social Care Levy

In addition to confirming the 2% maximum increase in council tax income, the provisional Settlement included the option to extend the adult social care levy. We have the flexibility to levy an additional Adult Social Care precept, of up to 3%. This additional 3% can be spread across two years – 2021/22 and 2022/23. The further 3% adult social care levy would provide for an estimated additional £11.013m resource on an on-going basis.

The December MTFS proposals included £12.816m of additional allocations to adult social care (after deducting potential savings). Therefore, in taking the advantage of the opportunity to raise the additional levy Members would not need to make additional spending allocations to adult social care, although this would require phasing the levy over two years.

In light of the continuing uncertainty around future funding of adult social care, the continued high and increasing levels of demand and the positive impact on the projected medium-term resource base of the authority Corporate Board recommend taking the full 3% levy, phased over the two years.

The Government is assuming local authorities raise the 3% adult social care levy as well as the 2% increase in the main element of council tax as part of their overall funding package for local government services.

2.3. **New Homes Bonus**

The provisional Settlement included a decrease in the New Homes Bonus (NHB) allocation for 2021/22 of £0.373m compared to our previous estimates. The decrease was as a result of the way historic growth trends are consolidated into the allocation methodology. This change in the method of calculation is now forecast to lead to a further reduction of £0.963m for the remainder of the MTFS, reducing our medium-term allocation to £1.729m.

As part of the Local Government Settlement it was also announced that the Government plans to consult on the future of the scheme during 2021, and therefore there is a material risk as to the whether the £1.729m will continue to be received over the medium term. Until there is greater clarity about the future direction of travel it is recommended that we continue with the working assumption that, in some form, we will continue to receive this level of funding.

2.4. **Social Care Funding**

The provisional Settlement confirmed the roll-forward of the £1.1bn social care grants from 2020/21. The level of these grants is unchanged from the Spending Review 2020 and the 2021/22 budget proposals reported to Cabinet in December 2020.

In the Chancellor's Autumn Budget, a new one-off social care grant of £300m was announced. £240m of this grant is being used to equalise the potential variation in yield between authorities from the adult social care precept. Warwickshire's share of this grant is £0.558m. Corporate Board recommend that this additional grant is used to fund the additional investment in Children's Services already included in their MTFS proposals.

There has been no announcement for the timescales for the longer-term review of adult social care funding. In addition, on 15 January 2021 the Government announced a wide-ranging, independent review into children's social care to address poor outcomes for children in care as well as strengthening families to improve vulnerable children's lives, so further increasing the uncertainty about future funding levels.

2.5. Together these elements of the provisional 2021/22 Local Government Settlement, the Queen's Speech and other grant announcements **increase the resources available to support services by £9.677m on an on-going basis (the £11.013m from the adult social care levy less £1.336m reduction in the NHB).**

3. Local Taxation

3.1. Council Tax

In the December Cabinet report the recommendations were based an increase in the taxbase of 0% in 2021/22. The districts/boroughs have now confirmed their council tax base for 2021/22 and these are showing a year-on-year increase of 0.2%. This will **generate additional on-going resource of £0.646m plus potential for up to a further £0.019m increase in funding from the adult social care from the 3% council tax levy.** The breakdown of the 2021/22 taxbase across the districts/boroughs is shown in Table 1.

Table 1: A Comparison of the 2020/21 and 2021/22 Council Tax Taxbase				
	2020/21 Taxbase Band D Properties	2021/22 Taxbase Band D Properties	Variation Band D Properties	Variation %
North Warwickshire	21,034.94	21,071.07	36.13	+0.17%
Nuneaton and Bedworth	38,416.40	38,408.10	-8.3	-0.02%
Rugby	38,735.24	38,735.24	-	-
Stratford-on-Avon	56,604.11	56,936.42	332.31	+0.59%
Warwick	55,851.37	55,916.75	65.38	+0.12%
Total	**210,642.06**	**211,067.58**	**425.52**	**+0.20%**

3.2. Business Rates

The partial localisation of business rates is still volatile with annual changes to the schemes of discounts and allowances continuing to make it difficult to make any realistic assumption about the likely level of income. This has been exacerbated this year by the range of grants and reliefs provided temporarily to businesses in 2020/21 to support them through the pandemic. It is not yet clear which, if any, of these reliefs will continue in 2021/22, with the Chancellor is expected to set out plans for any business rate reliefs within the next couple of months.

In the December Cabinet report the recommendations were based on a net 3% reduction in the income from business rates in 2021/22 (The 3% reduction is a net figure that offsets the annual inflationary uplift and a forecast reduction in the taxbase as a result of the economic impact of the pandemic). We do know that for individual businesses the business rates multiplier (the provision for inflationary uplift) has been frozen for 2021/22 and that local authorities will be compensated for this loss of income through an additional grant. But the level of this grant is currently unknown as it will depend, in part, on the impact of the economic downturn on the taxbase and any new relief schemes put in place for some/all of 2021/22.

The statutory deadline for the districts/boroughs providing details of our share of expected business rates in 2021/22 is 31 January 2021. Given the level of uncertainty within which they are operating no figures have been received to date. It is therefore recommended that the current estimates, as included in the December 2020 Cabinet report, are used for budget setting. Any variation will then be managed through the use of or a contribution to the provision set aside in reserves for this purpose. The final position will be reported to Cabinet in March as part of the Service Estimates report.

3.3. Surplus/Deficit on Collection

As part of setting the council tax we also have to take into account any surplus/deficit on collection of council tax from previous years. As a result of the impact of the pandemic on council tax collection the Government has legislated for local authorities to phase the recoupment of the 2020/21 loss over three years. Our share of any surplus/deficit from previous year (i.e. 2019/20 and earlier) must still be made good in 2021/22. The breakdown of the surplus/deficit across the districts is shown in Table 2 and shows a deficit to be funded in 2021/22 of **£1.481m**. It also shows a deficit to be funded in each of the next two years of **£1.459m** before any surplus/deficit from subsequent years is taken into account.

Table 2: (Surplus)/Deficit on Council Tax Collection				
	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
North Warwickshire	0.051	-	-	0.051
Nuneaton and Bedworth	0.355	0.198	0.198	0.751
Rugby	0.225	0.140	0.140	0.505
Stratford-on-Avon	0.566	0.727	0.727	2.020
Warwick	0.284	0.394	0.394	1.072
Total	**1.481**	**1.459**	**1.459**	**4.399**

As part of the provisional 2021/22 Settlement the Government committed to fund 75% of irrecoverable 2020/21 deficits. The level of funding we will receive is yet to be confirmed but could be up to £1.094m in each of the next three years.

The economic consequences of the pandemic on employment levels and hence households' ability to pay their council tax in full has been partially offset in 2020/21 by the positive impact on income levels of the furlough scheme. As this scheme is withdrawn it is expected the ability of households to pay their 2021/22 council tax (and any residual debt from previous years) will reduce. The Government has partially compensated local authorities from the impact of this, via a £670m hardship fund for 2021/22 that will be allocated to billing authorities, but the deficit on collection requiring funding shown in Table 2 is expected to increase and there is no indication that the Government plans to share the cost of any council tax deficit burden from future years.

It is therefore the strong recommendation of Corporate Board that, after funding the deficit due in 2021/22, the remaining £6.601m provision for council tax deficits built into the MTFS proposals reported to Cabinet in December is retained until the implication of the pandemic on council tax collection over the medium term is clearer.

4. Reserves

4.1. When looking at short-term funding to support the 2021/22 budget we need to consider the known calls on reserves. The Quarter 3 forecast outturn position, reported elsewhere on today's agenda, is an underspend of £9.3m.

4.2. £5.4m of this underspend relates to earmarked funding that cannot be used to support the budget more widely. Most of the balance (£2.8m) had already been taken into account when determining the £43.150m reserves that could be released to support the 2021/22 budget in the report to Cabinet in December 2020.

4.3. The Quarter 3 forecast position was prepared in December 2020, before the second lockdown was announced. As a result, the forecasts of spend to the end of the financial year are unlikely to remain unchanged and are expected to be highly volatile and uncertain. We do not yet know the cost of the latest response phase and whether any costs can be fully funded from the Covid-19 emergency response grants from the Government. This means that, at this stage, it is recommended that no additional reserves, beyond the £43.150m, are used to fund the 2021/22 budget and the MTFS.

4.4. Over recent months there have been a number of high profile public interest reports, from external auditors, where local authorities commercial activities have not delivered against their business plans and this has resulted in the authorities concerned having to make in-year emergency spending reductions to remain financially sustainable. 2021/22 will see a step change in the breadth of the Authority's commercial activity to accelerate delivery of its priorities and service objectives. We have learnt from these reports and the governance arrangements being put in place both in terms of decision-making and on-going oversight will mitigate against the financial risks and discussed their implications with the Fire and Rescue Overview and Scrutiny Committee. However, these risks cannot be wholly removed. The budget monitoring report elsewhere on today's agenda has reported the reprofiling of the capital programme into future years. This will result in a temporary underspend 2021/22, of £7.5m, in the budgeted revenue cost of borrowing that would have financed that spend. Corporate Board recommend that this funding is set aside in a Commercial Risk Reserve to further mitigate the financial risks of the Authority's commercial activity. Any use of this reserve will be approved by Cabinet as part of the regular financial monitoring reports.

4.5. Legislation requires that the Chief Finance Officer makes an annual statement on the adequacy of general reserves and provisions. The risk assessment relates to the short-term financial risks that could impact on the authority in 2021/22 to deliver core services and drive forward the ambitions set out in the

Council Plan. The Strategic Director for Resources has now completed the risk assessment for 2021/22. This assessment takes into account the reduction in directorate risk reserves from 5% of their budget to 3%. The risk assessment confirms that the minimum level of general reserves it is prudent to retain is £21.4m. A copy of the risk assessment is attached at the **Appendix**.

4.6. The minimum level of general reserves of £21.4m represents an £0.2m increase compared to the position at this time last year. The change reflects the continued generally high level of uncertainty around future funding. Although the overall provision remains broadly the same there have been some changes to the specific reasons for the provision:

- An increased provision to meet the additional costs of emergencies of £0.6m to provide cover for immediate costs prior to Government funding being received and then to make good any damage over the medium term, so reducing any impact on the ambitions set out in the capital strategy;
- A £3.9m reduction in the provision for additional in-year budget allocations being made and/or services not being required to make-good any overspends, particularly in relation to Education and DSG-funded services where any plans to bring spending back into line with the resources available will only be deliverable over the medium term;
- A new £2.0m provision for the medium-term cost of covid above the level of Government funding received; and
- A £1.5m increased provision for increased in-year costs as a result of changes in taxation, the impact of EU exit and trade negotiations and the increasing need to reach inter-organisation agreements about the use of funding e.g. health and the LEP.

5. Changes to Proposed Allocations

5.1. There is one proposal from Corporate Board for an increased allocation above the level reported to Cabinet in December. This is a £2.543m increase in the cost of placements for children and reflects the financial impact of the increased demand in 2020/21 being reported as part of the Quarter 3 budget monitoring report elsewhere on today’s agenda.

5.2. The spending proposals reported to Cabinet in December included £2.421m of proposals that were directly Covid-related. The allocation of a further un-ringfenced Covid-19 grant of £10.843m has provided an alternative source of funding for this spending need and Members no longer need to fund these proposals from within their budget proposals.

5.3. Table 3 lists the £2.421m of spending proposals that can be funded from the Covid grant in 2021/22.

Table 3: Spending pressures proposed for funding from the 2021/22 Covid grant		
Service	**Description**	**Cost £m**
Education Services	Traded services gross profit target reduction	0.110
Children and Families	Residual impact of Covid on demand for children's services	0.631
Business and Customer Support	Partnerships and customer excellence	0.580
	Business support redesign	0.600
Enabling Services	Estates and office cleaning	0.250
	Old Shire Hall	0.200
Governance and Policy	Communications post - Covid	0.050
	Total	**2.421**

5.4. The net impact of these changes to spending and resources is that to ensure the MTFS remains sustainable will require a minimum of 0.6% of the additional adult social care levy to be taken or £1.9m of additional savings to be identified, pending the final resource information being received.

6. Dedicated Schools Grant

6.1. At the same time as the Local Government Finance Settlement was announced the Department for Education also announced a Dedicated Schools Grant of £495.6m in 2021/22 to provide funding for services to schools and pupils. A full report seeking approval for the allocation of the Dedicated Schools Grant will come to Cabinet for approval in February 2021.

6.2. The Council's policy is to expect the cost of funding schools and relevant pupil-related services to be contained within the level of the Dedicated Schools Grants. However, meeting this policy aspiration in relation to high needs services and support can only be achieved over the medium term; given the nationally growing demand for services and the lack of capacity in the system. Any decisions to manage the deficit position on high needs will also need to be included as part of the budget resolution to be agreed by Council in February 2021.

7. Capital Strategy and Programme

7.1. There are no proposals from Corporate Board to amend the draft capital strategy and technical appendix brought forward as part of the December Cabinet report, subject to updating the numbers for the latest monitoring information. These documents alongside the capital programme itself will need to be included, subject to any changes proposed by Members, as part of the capital resolution to Council in February.

8. Outstanding Issues for 2021/22

8.1. Section 3 of the report highlighted a number of areas where information is still outstanding on the final level of resources that will be available to the authority in 2021/22. Where this information is available before 28 January it will be included in a revised report and/or the 2021/22 budget resolutions. Where any information is not known when the papers for Council in February are published, any variation to the estimated figures will be managed through reserves for 2021/22 and picked up as part of the preparation for the 2022/23 budget. Any areas of concern will be specifically reported to Members as part of the Service Estimates report to Cabinet in March 2021.

9. 2021/22 Budget Resolutions

9.1. In putting forward their proposals, Members are reminded that local authorities are required by law to set a balanced budget. An intention to set a deficit budget is not permitted. However, what is meant by ‘balanced’ is not defined in law. A prudent definition of a sustainable balanced budget is a financial plan based on sound assumptions which shows how income will equal expenditure over the short- and medium-term, acting in a way that considers both current and future local taxpayers.

9.2. If the budget is unbalanced then the Chief Finance Officer, supported by Corporate Board, would have to consider issuing a Section 114 notice. Such a notice is only given in the gravest of circumstances, as during that time the ability to incur new spending that isn't an existing contractual or salary commitment is suspended, the External Auditors would investigate and publicly report on the circumstances and the Ministry for Housing, Communities and Local Government (MHCLG) may take over the running of the Authority.

9.3. Because Members decide on the council tax before the year begins and cannot increase it during the year, there is a need to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by making prudent allowance in the estimates for services and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

9.4. To avoid setting an unbalanced budget the Local Authority has to be financially resilient. Setting a clear MTFS helps clarify expected income and expenditure. Awareness of the funding available in the forthcoming years means the Council stands a better chance of balancing the budget. Reserves are a useful option for balancing the budget in the short-term. However, reserves should not be used to pay for day-to-day expenditure, and it is important that they are replaced when the short-term need has passed. Therefore, the MTFS needs to be fully balanced on an ongoing basis, with no ongoing spending funded from one off resources meaning the next MTFS does not start from a deficit position.

9.5. It is important that the Authority complies with its obligations under the Equalities Act 2010 - the public sector equality duty (PSED) - to promote equality and to reduce discrimination in relation to any of the nine ‘protected characteristics’ (age; disability; gender reassignment; pregnancy and maternity; marriage and civil partnership; race; religion or belief; sex; and sexual orientation). The Council must have ‘due regard’ to the PSED when taking any decisions on service changes whilst recognising that local authorities have a legal duty to set a balanced budget. Similarly, if proposals are likely to have adverse impacts on customers, public consultation should be undertaken before any final decisions are made and consideration given to the outcomes of those consultations. This may mean that some proposals are not implemented, and alternative solutions may need to be sought. Legal challenges to local authority budget setting processes have tended to turn on whether the authority has complied with these duties.

9.6. Using the information contained in this report, Cabinet are asked to approve their 2021/22 Budget resolutions for recommendation to Council on 8 February 2021. Cabinet are also asked to authorise the Strategic Director for Resources to update the budget resolutions to Council to reflect the final resource information.

10. Financial Implications

10.1. There are no direct financial implications for the Authority arising from this report. The report is part of a series of reports that will culminate in Council agreeing the 2021/22 budget and council tax at their meeting on 8 February 2021.

11. Environmental Implications

11.1. There are no immediate environmental implications for the Authority from this report. There will be environmental implications that flow from the individual allocations and proposals agreed as part of the Council's approved budget and these should be considered by Members as part of reaching their decisions.

12. Background Papers

12.1. None

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Elected Members have not been consulted in the preparation of this report.